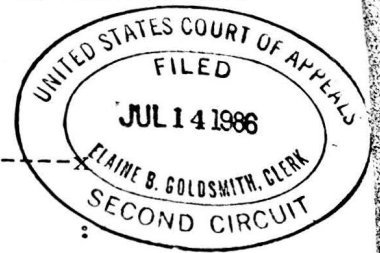


ORIGINAL

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT



UNIVERSAL CITY STUDIOS, INC.,

Plaintiff-Appellant,
Cross-Appellee

v.

NINTENDO CO., LTD. and
NINTENDO OF AMERICA, INC.,

:
Docket Nos.
86-7077
86-7099
:

Defendants-Appellees,
Cross-Appellants.

:

-----x
Monday, June 16, 1986
U.S. Court of Appeals,
Second Circuit
Courtroom No. 1705
40 Foley Square
New York, New York

B E F O R E :

HON. THOMAS J. MESKILL
HON. AMALYA L. KEARSE
Circuit Judges

HON. CHARLES M. METZNER
District Judge

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oOo

(Case called)

JUDGE MESKILL: Mr. Schwartz.

MR. SCHWARTZ: Good morning, your Honor. My name is Michael Schwartz, representing Universal City Studios, appellant-cross appellee.

I would like to begin by thanking the Court for allowing the parties to file oversized briefs in this matter and for allocating twenty minutes of argument.

These cross-appeals do implicate two prior decisions of the District Court, one of which has been before this Court, your Honor, and Judge Kearse and the late Judge Friendly once before, and I hope at least we have used the extra space you have allowed us wisely in trying to show very clearly that there is an intimate connection between the issues that were before Judge Sweet in 1983 and the issues that bring us back before this Court this morning.

Universal's fundamental contention on the appeal is that the District Court erred in determining that Universal was guilty

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2 of a tort under New York law in threatening
3 and bringing litigation and, beyond that,
4 that the Court independently committed error
5 in awarding a million and a half dollars
6 or roughly a million and a half dollars
7 in punitive damages for Rule 11 or Lanham
8 Act attorneys' fees against Universal.

9 I would like, if I may, your Honor,
10 to focus my main argument, I have reserved
11 five minutes for reply, on what we believe
12 to be the three fundamental errors of law
13 which left Universal in a position it is
14 in now.

15 First and foremost, your Honor,
16 is the lower court's erroneous treatment
17 of what is known in the lexicon in this
18 case as the Cooper judgment; that is, the
19 judgment that was entered by the California
20 Federal Court in January 1981, finally
21 adjudicating that all rights in King Kong
22 belong to the heir of the man who created
23 King Kong, with the exception of derivative
24 copyright rights in two movies made by RKO.

25 JUDGE METZNER: I thought the

1
2 agreement was as far as RKO was concerned,
3 not as far as anybody else was concerned.

4 MR. SCHWARTZ: The lawsuit under
5 Major Cooper's crossclaim was, of course,
6 a private lawsuit, and it adjudicated that
7 as between them, as between RKO and Major
8 Cooper, Major Cooper owned all rights.

9 In essence, as your Honor can see
10 from reading the judge's findings in California,
11 what the California court held was very
12 simple.

13 Major Cooper's father, Marianne
14 Cooper, had never given RKO the right to
15 do anything more than make one movie and a
16 sequel. All other rights in King Kong were
17 Major Cooper's.

18 His father had died. It is those
19 rights, all rights in King Kong, which Universal
20 purchased in a transaction which is not
21 an issue here.

22 Nonetheless, the District Court
23 held that Universal had no rights in King
24 Kong, and we submit it did so erroneously.

25 The judgment which Judge Metzner

1
2 has referred to was a declaratory judgment.
3 It declared what the original understanding
4 was between the Senior Cooper and RKO.

5 It declared that from the inception,
6 all rights that remained were the Coopers'.
7 RKO only had the right to make two movies.

8 The District Court here adopting
9 Nintendo's argument, at least its argument
10 in the District Court, held that the Cooper
11 judgment was a transfer in gross; indeed,
12 a quintessential transfer in gross and,
13 therefore, transferred or failed to transfer
14 any trademark rights to Major Cooper.

15 Now, if there is one thing that
16 is extraordinary, and there are many about
17 this case, but if there is one thing that
18 is extraordinary, it is that Nintendo, having
19 led the District Court up what I consider
20 to be a garden path in that issue --

21 JUDGE MESKILL: If you can speak
22 a little more slowly.

23 MR. SCHWARTZ: If there is one
24 thing that is extraordinary here, your Honors --
25 thank you for the reminder. I tend to speak

1 a little too quickly -- it is that in some
2 70 or 75 pages of briefing here, Nintendo
3 has not addressed a word to defending the
4 ruling which it introduced below, to the
5 effect that this declaratory judgment declaring
6 that rights had never left Cooper was a
7 transfer in gross, such that Cooper had
8 no trademark rights to transfer to Universal.
9

10 Your Honors, we submit that the
11 principle of transferring in gross or assign-
12 ment in gross have nothing whatever to do
13 with the case. There was no transfer at
14 all. A declaratory judgment doesn't transfer
15 anything.

16 This particular declaratory judgment
17 very expressly recognized that nothing had
18 ever left Cooper and, in effect -- not in
19 effect -- in so many words, treated RKO
20 as a constructive trustee of all rights
21 to the extent RKO has exercised them at
22 any time in any media.

23 That is the language of the Cooper
24 judgment and that is the language with respect
25 to which Universal brought its lawsuit in

1
2 the District Court. Universal's complaint
3 in the District Court clearly referenced
4 its agreement with Major Cooper as the source
5 of its rights.

6 It is a remarkable event in the
7 briefing in this court that when my friends
8 here quoted our complaint to this Court,
9 they deleted by three dots the reference
10 in Paragraph 6 of our complaint to the agreement
11 with Major Cooper as the source of our rights.

12 It has been crystal clear from
13 the inception of this lawsuit that Universal's
14 position was that Universal had rights in
15 the same manner and degree that Major Cooper
16 had rights. It is no overstatement of Universal's
17 position here to say that Universal is Major
18 Cooper for these purposes.

19 The District Court in 1983 also
20 held that the Cooper judgment made it impossible
21 as a matter of law for King Kong to have
22 a trademark secondary meaning.

23 We submit, your Honors, that that
24 proceeds from the same erroneous view of
25 the Cooper judgment as affecting some sort

1
2 of movement of rights, when the Cooper judgment
3 said the rights never left Major Cooper
4 or his father, but I will just refer generically
5 to Cooper.

6 The Cooper judgment could not have
7 been clearer, and I will come back to your
8 observation, Judge Metzner, that as between
9 Cooper and RKO, all rights were solely and
10 exclusively vested in Cooper.

11 Now, what is being said there?

12 It seems to us it is crystal clear
13 that the California Court understood that
14 all he was attempting to do was to say,
15 in effect, where you see RKO, read Cooper,
16 and everything follows from that; namely,
17 the fact that there was no transfer in gross,
18 the fact that the Cooper judgment did not
19 make it impossible for King Kong to have
20 secondary meaning or anything of that sort.

21 JUDGE MESKILL: Universal's lawyers
22 did not seem to think they had very much
23 to sell, did they?

24 (Inaudible)
25

1
2 MR. SCHWARTZ: The record is clear
3 that Mr. DiMuro was queried by Mr. Sheinberg
4 with respect to merchandising rights and
5 Mr. DiMuro, whom I think Judge Sweet's opinion
6 makes clear is a very precise methodical
7 man, answered in terms of merchandising
8 rights.

9 There is no instance in the record
10 in which Mr. DiMuro was queried by anybody
11 as to trademark rights, and his testimony
12 is very clear on that, undisputed.

13 The man to whom Universal turned
14 when it became a question of whether to
15 seek to enforce trademark rights was the
16 fellow who had litigated in the California
17 Federal Court the whole issue of King Kong,
18 and that was Mr. Croft.

19 JUDGE MESKILL: Wasn't it the
20 rule that anything to do with King Kong
21 had to be cleared with Mr. DiMuro? Wasn't
22 he an expert on this property?

23 MR. SCHWARTZ: There was no rule
24 of that nature with respect to litigation
25 matters, your Honor.

1
2 Mr. Croft was the litigator for
3 Universal. He litigated all or most of
4 its major intellectual property cases. He
5 was widely experienced in trademark and
6 copyright litigation. These facts are undisputed.

7 JUDGE METZNER: What right did
8 Universal get from Cooper?

9 MR. SCHWARTZ: From Cooper?

10 JUDGE METZNER: Yes.

11 MR. SCHWARTZ: So far as is relevant
12 here, your Honor, we believe that Universal
13 got the right to enforce the trademark in
14 King Kong which RKO and its licensees had
15 built up over a 40-year period.

16 It, in effect, succeeded to the
17 good will which had been created in the
18 trademark King Kong through the efforts
19 of RKO.

20 JUDGE MESKILL: What was the
21 trademark? What was the property that you
22 were getting?

23 MR. SCHWARTZ: The trademark is --

24 JUDGE MESKILL: You couldn't use
25 the story, you couldn't use anything from

1
2 the movie.

3 MR. SCHWARTZ: No, no. That is
4 not so, your Honor. There is only one arguable
5 limitation on Universal, and that is the
6 use of actual stills from the 1933, the
7 famous 1933 movie. That is the only limitation.

8 The name, the character, the visual
9 image, the story, any visual representation,
10 so long as it was not a verbatim copyrighted
11 image of King Kong, was Universal's.

12 Your Honors, everybody recognized
13 this. Put aside Universal. Put aside
14 Universal entirely.

15 In essence, before the Court below,
16 your Honors, a whole industry testified,
17 all the people who knew most about King
18 Kong.

19 These was RKO, there was an affidavit
20 from the DeLaurentis people, there was an
21 affidavit from the Paramount people. None
22 of these people suggest that there was any
23 limitation on Universal's rights. None
24 of these people suggest that there was --

25 JUDGE METZNER: I am trying to

1
2 find out what those rights are.

3 MR. SCHWARTZ: Ultimately, any
4 intellectual rights --

5 JUDGE METZNER: I am trying to
6 find out what you are talking about.

7 MR. SCHWARTZ: Merchandising rights
8 is a term which Nintendo has sought to clothe
9 in some great mystery. It is used in their
10 own documents here.

11 JUDGE METZNER: (Inaudible)

12 MR. SCHWARTZ: Merchandising is
13 the right to sell products involving a famous
14 character in a movie or a cartoon or a show
15 or something of that sort.

16 It is a very profitable form of
17 commercial activity. It is, indeed, obviously
18 what was done by our friend in Nintendo.
19 There is no question here they were trading
20 on the King Kong story.

21 Try to imagine a world in which
22 there had never been a King Kong movie.

23 JUDGE MESKILL: You can remember
24 the appendix that was filed and the exhibits
25 that had been filed when we had the original

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2
3 case here, indicating the whole series of
4 comic books and products, and King Kong
5 had been used very, very freely.

6 MR. SCHWARTZ: With respect, that
7 is a different issue. That does not go
8 to what the definition of merchandising
9 rights is.

10 JUDGE MESKILL: I understand.
11 (Inaudible)

12 MR. SCHWARTZ: We believe that
13 it is protectable under the Lanham Act,
14 that anybody who seeks to exploit the name
15 King Kong or a recognizable portion of that
16 name in a context which obviously evokes
17 the story made famous by the 1933 movie
18 is Universal's sole and exclusive right
19 to enforce.

20 JUDGE MESKILL: Even though you
21 were successful in proving that it was in
22 public domain?

23 MR. SCHWARTZ: Yes. That copyright
4 concept has nothing to do with the availability
of trademark protection. I think Judge
Sweet recognized that. He was quite clear

1
2 that the copyright standard and the trademark
3 standard are different here.

4 The availability of trademark protection,
5 to come back to your question, Judge Metzner,
6 plainly depends upon winning ultimately
7 a litigation and persuading a court.

8 No one is saying, at least no one
9 on my side of the table, that it was clear
10 that Universal had the rights.

11 What has been said is by virtue
12 of Ms. Sifuentes' testimony, it was clear
13 to the point of fraud upon a court that
14 we did not have the rights.

15 Let me address, if I can in the
16 time remaining to me, the two other errors.
17 We think, to repeat, that the first was
18 the erroneous treatment of the Cooper judgment.

19 Secondly, the notion that even
20 if we are wrong on the Cooper judgment,
21 that the litigation that was brought under
22 that judgment could have been intentional
23 tort under the law of New York is absolutely
24 contrary to the law of New York.

25 New York is very receptive, very

1 protective of people's rights to bring litigation.
2 This wasn't just any litigation. It was
3 brought on the advice of the lawyer who
4 knew the most about King Kong, and we have
5 Mr. DiMuro's own testimony, if we needed
6 it, to that effect, the very lawyer who
7 had represented Universal in the litigation
8 from which its rights derive, not some hot-shot
9 lawyer to whom Universal went to try to
10 get a friendly opinion, but the very lawyer
11 who knew the most about King Kong.

12 So we think the ruling below, that
13 this lawsuit, even if we are wrong on the
14 Cooper judgment, could possibly have been
15 an intentioanl tort under New York law is
16 simply erroneous as a matter of New York
17 law.

18 Finally, the award of punitive
19 damages and attorneys' fees are independently
20 erroneous. Obviously they must be vacated
21 if we are right about the Cooper judgment
22 or if we are right about the absence of
23 any tort to which these things can be appended,
24 but they are independently erroneous.
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I must particularly say that the allegations that are made in the brief of Nintendo here against the Townley & Updike firm of this city are absolutely scurrilous.

There is nothing in the record to suggest that that firm acted in subjective bad faith, as this Court's decisions plainly would have required for a Rule 11 award to be proper.

JUDGE MESKILL: How much weight should a District Court place on a statement that Universal's litigation department is a profit center?

MR. SCHWARTZ: I don't think the Court should put any weight on that, your Honor.

I would be frank to say we did not try this case, and why that statement is in the record is beyond me. It was said in the context of what was clearly a settlement meeting, in an attempt to induce settlement.

To the extent it comes into the record, I am stuck with it. But I think the Dow Chemical case made it very clear

1
2 that even if there is actual proof below
3 of actual litigation misconduct in some
4 other case, that would not be a proper factor
5 to consider.

6 There is no evidence of any litigation
7 misconduct by Universal in any case, none.

8 So that whatever the statements
9 that are made in the heat of trying to settle
10 a case may be, they have no bearing on the
11 proper exercise of a Court, of a District
12 Court in deciding whether to award attorneys'
13 fees.

14 Finally, let me just say this.

15 The New York law being so protective
16 of the right to take cases into court, I
17 think, would not in a million years authorize
18 an award of punitive damages when the gravamen
19 of the act is having brought a case in court.

20 The Curiano versus Suozzi case,
21 which we think makes clear there can be
22 no tort here at the barest conceivable minimum,
23 says that New York would not treat this
24 as the kind of tort manifesting a criminal
25 indifference to civil obligations that would

1
2 justify the imposition of punitive damages.

3 I think, in short, your Honors,
4 that the fundamental point to bear in mind
5 is that the trademark rights here are not
6 the vague and amorphous and so on things
7 that we have been taxed with.

8 The rights are very clear. They
9 are the right to all exploitations in
10 merchandising form of any use of a visual
11 image of King Kong or that which evokes
12 King Kong and the name King Kong or a name
13 suggestive of it.

14 There is no question, it seems
15 to us, that that was what Donkey Kong confronted
16 Universal with. It brought its lawsuit.
17 It lost its lawsuit.

18 This Court has decided that, in
19 effect, Donkey Kong is a kind of a parity,
20 and under the Great American Hero case,
21 there can be no likelihood of confusion.
22 That may be. That is not my issue here
23 this morning.

24 We are not seeking to reargue that
25 a bit. We are saying the lawsuit was not

1
2 a fraud. The lawsuit was not in bad faith.
3 The lawsuit was brought to vindicate important
4 rights, rights that can be lost if they
5 are not enforced, if they are not zealously
6 enforced, and we think your Honors ought
7 to reverse the decision below.

8 I have reserved the remainder of
9 my time.

10 MR. KIRBY: Good morning, your
11 Honors. My name is John Kirby. I am counsel
12 for Nintendo, the appellee-cross-appellant
13 here. When I say "here," I guess here is
14 Donkey Kong II, the way the Hollywood folk
15 designate these reruns, but perhaps it should
16 more properly be called King Kong III, because
17 the District Court has three times held
18 that King Kong was not a trademark; twice,
19 the two most recent times, Judge Sweet,
20 but the first time Judge Real in California,
21 in the Federal District Court there, at
22 the instance and on the basis of the proof
23 submitted by Universal.

24 JUDGE MESKILL: Wasn't that case
25 settled, though?

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3 MR. KIRBY: Yes, your Honor, ultimately
4 that was vacated, that judgment was vacated
5 as a result of a settlement, a very favorable
6 settlement to Universal.

7 JUDGE MESKILL: So that really
8 can't have any precedential value here.

9 MR. KIRBY: Your Honor, I am not
10 arguing that it has a collateral estoppel
11 effect. I am simply pointing out that
12 Universal did present evidence to that Court,
13 did secure judgment, later vacated during
14 the Appellate process, finding that King
15 Kong was not a trademark.

16 It did so on the basis of no secondary
17 meaning. Judge Sweet did it on that basis,
18 but also additional bases.

19 I would just like to spend a few
20 moments on this Cooper agreement and the
21 nature of these so-called Universal rights
22 and what Judge Sweet did.

3 JUDGE MESKILL: (Inaudible)

MR. KIRBY: Well, your Honor,
I think that that statement is the kind
of thing that good lawyers dream up, what

1
2
3 we will now call as a declaratory judgment,
4 because we have to figure out some way to
5 get around the effect of what happened,
6 but unfortunately it shows a fundamental
7 lack of appreciation and knowledge of what
8 a trademark was.

9 Remember the context. For some
10 40 years, RKO had been exploiting King Kong.
11 Whether or not it had been successful in
12 exploiting it as a trademark is, indeed,
13 another question.

14 As a matter of fact, the California
15 Court found out it was not because it didn't
16 challenge the many, many unauthorized uses,
17 but RKO, if anyone was implementing this
18 as a trademark, using it as a trademark,
19 it was RKO, not Cooper.

20 Cooper comes in belatedly, Cooper's
21 heir, and says: I would like a declaration
22 as to what that contract originally did.

23 Now, that contract gave up certain
24 things to RKD. His father gave them the
25 right, according to Judge Real, to make
movies, but that contract didn't in any

1
2 way create or reserve a trademark. There
3 wasn't any trademark then. There was simply
4 a story.

5 A trademark develops from use,
6 from public appreciation and association
7 of something as a single source.

8 Now, in 1975, when Universal attacked
9 King Kong as a trademark, they attacked
10 it on the basis that the public didn't associate
11 it with a single source, and Judge Real bought
12 that argument. But if anyone had, it was
13 RKO, it was not Cooper.

14 So when Judge Real in the second
15 aspect of that action declared that, as Judge
16 Metzner pointed out, as between RKO and
17 Cooper, the rights had been reserved by
18 Cooper and Cooper had the other rights,
19 he was not talking about trademark rights.
20 He couldn't have been because Cooper had
21 not had a trademark to give up or not give
22 up at the beginning.

23 In addition, he was explicitly
24 not talking about a trademark because
25 simultaneously he was finding that King Kong

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3 was not a trademark.

4 So at that point, your Honors, as
5 Judge Sweet later found in his first Donkey
6 Kong opinion, what had happened is that
7 Universal -- forgetting the collateral estoppel,
8 forgetting the judicial estoppel of appearing
9 in court, another federal court and making
10 the contrary argument -- what Universal
11 had done by their machinations is succeeded
12 in buying something from Cooper, but it
13 didn't include a trademark.

14 Cooper had not had the trademark
15 originally. He didn't get it by declaration
16 that RKO had been violating his father's
17 rights for 40 years. So there was no trademark
18 at that point.

19 And I think it is indicative of
20 Universal's treatment of this that the context
21 of what Judge Sweet did -- Judge Sweet is
22 accused of ignoring a court or jurisdiction.
23 Judge Sweet carefully analyzed what that
24 judge did in terms of the law relating to
trademarks.

But, your Honors, I think it should

1
2 be made clear that the Cooper judgment --
3 Judge Sweet's determination that they didn't
4 have a trademark -- the termination, I should
5 point out, was reaffirmed in the second
6 Donkey Kong decision when he said that after
7 the evidence, after a trial, not on summary
8 judgment, they haven't produced anything
9 to show me that I was wrong, that it was
10 a trademark.

11 Indeed, they only produced one
12 witness, and I think it is with an extraordinary
13 amount of gall, the witness they did produce,
14 they produced the RKO general counsel whom
15 they had beaten in 1975, to say: Wait a
16 second. In '75 I was right. We did have
17 a trademark despite what the Judge had found.

18 Judge Sweet heard it again, said
19 again no trademark.

20 What they are doing here is something
21 quite different and quite in line with Judge
22 Sweet's finding that there was massive bad
23 faith, that we had here a scam of, indeed,
24 Hollywood epic proportions.

25 What they did here is say: My God,

1 we are in trouble. So we will send the
2 lawyers to the library, we will pull out
3 all the agreements, we will look at every
4 document, we will reeducate all the witnesses
5 to see if we can find some basis on which
6 we could have been in good faith in bringing
7 the lawsuit when we did in June of 1982.

8 But that is not the test. It is
9 not the test whether now they can find something.
10 The test is what did they do and believe
11 and know at the time.

12 What they knew at the time was
13 that Judge Sweet was correct both times
14 he found that they had no trademark.

15 What they knew at the time was
16 that they didn't have any right to a trademark.

17 How do we know that?

18 We know that from the evidence,
19 and I cannot sum it up any better than Judge
20 Sweet did on Page 862 of his opinion when
21 he went through these item by item.

22 What they had done through the
23 famous Mr. DiMuro in response to Mr. Sheinberg,
24 who Judge Sweet found directed this whole scam.
25

1
2 He said, Mr. Sheinberg said: What
3 rights do I have?

4 Mr. DiMuro on June 18, 1980 wrote
5 back a memorandum saying: You have merchandising
6 rights.

7 It is simply not true, as Universal's
8 counsel said here today, that he was not
9 asked anything about trademark rights by
10 anyone. He testified at trial, because
11 he had to, that trademark wasn't in that
12 memo, and he attempted to justify that by
13 saying Mr. Sheinberg was only asking me
14 about merchandising, but he was asked about
15 trademark rights.

16 By whom? By the Universal licensing
17 department, testimony, some of which he
18 concurs in and some of which he denies.

19 When he was asked: Well, what
20 does it mean? I have a right to merchandise
21 it. Do I have a name? Do I have a visual
22 image? What can I sell?

23 Not getting a very good response,
24 the licensing department didn't do anything
25 except tell the one existing licensee, who

1 was a carryover, you've got to change your
2 profits.

3 That was Ben Cooper, your Honor,
4 the Ben Cooper Halloween mask.

5 They said: You can't use the visual
6 image that looks like the movie ape now,
7 you've got to change it.

8 So what the licensing department
9 was told by Mr. DiMuro, what Mr. Sheinberg
10 was told by Mr. DiMuro is: We have no visual
11 image.

12 Indeed, what this court was told
13 at the time of the last argument was: We
14 have got the name, we have got the name.

15 Just Sweet found, after looking
16 at it back and forth and back and forth,
17 including this belated invention of Section
18 6 of the RKO-Universal settlement agreement
19 which deals with moviemaking, that they
20 had the right to use scenes from the movie
21 and in a certain limited context in a new
22 movie they made, gave them the right to
23 use the visual image for merchandising.

24 That kind of invented argument
25

1
2 Judge Sweet found at the conclusion of the
3 summary judgment hearing and of the hearing
4 where they took full evidence, and they
5 cannot identify a shred of what they had.

6 So what did they do?

7 Sitting there, two weeks before
8 the first meeting with a Nintendo licensee,
9 Mr. Sheinberg was explicitly advised by
10 DiMuro: We have got to be very careful.
11 Don't use the visual images.

12 But the thought of being able to
13 cut in on the video game market, establish
14 a presence create a new Universal division
15 to handle video games when they were at
16 the height of their success, led Mr. Sheinberg,
17 found by Judge Sweet, to have directed the
18 operation.

19 After Judge Sweet heard him testify
20 at great length for hours, observed him
21 on the stand, observed the director of his
22 litigation department, Mr. Hadl, and Mr.
23 DiMuro, the former general counsel, when
24 Judge Sweet listened to all this, Judge
25 Sweet found that what they did was decide:

1 We will claim not only a trademark, but
2 we will claim broad rights and go after
3 Coleco, who was vulnerable to us.
4

5 There was a great scam, and it
6 was a very successful scam, and I do want
7 to spend a few moments addressing the success
8 of that scam.

9 In the first place, on the facts
10 that Judge Sweet found, it is almost an
11 insult to him to say that they can't be
12 clearly erroneous. These detailed findings
13 of fact about the scam are there.

14 Now, Universal goes on to say:
15 No matter how bad we were, even though,
16 as Judge Sweet found, we weren't entitled
17 to rely on the advice of counsel whom we
18 had not told anything to and whom we failed
19 to produce at the hearing when we were producing
20 everybody else.

21 Why?

22 Because, among other things, he
23 would have to be cross-examined, he would
24 have to be cross-examined about the earlier
25 litigation, about why in his words he never

1
2 mentioned Section 6 as giving them trademark
3 rights. They didn't produce him.

4 And what they say is: Despite
5 all this, you cannot give Nintendo any relief.

6 What happened, however, your Honors,
7 is Nintendo was hurt and this Court was
8 hurt.

9 What happened by this scam was
10 an insult and a financially injurious insult
11 to Nintendo, but an insult to everyone because
12 they then went on, not just by filing a
13 lawsuit, claiming rights they knew they
14 didn't have, but issuing a press release
15 and immediately going after the Nintendo
16 major licensees who were vulnerable because
17 of other commercial relationships to them
18 and succeeding in getting agreements from
19 them, and not just any agreement.

20 This is very important when we
21 talk about unjust enrichment and tortious
22 interference with respect to Coleco and
23 Atari and Ruby Spears, but royalty agreements.

24 They specifically rejected a lump
25 sum payment. When Ralston Purina said:

1 Will you accept a lump sum payment, the
2 negotiators for Universal got up, left the
3 room, went to see Mr. Sheinberg and came
4 back and said: No, we want a royalty, we
5 want to give you a license and you pay a
6 royalty to us.
7

8 They went after them. They then
9 wrote letters to all the Nintendo licensees,
10 and they succeeded in getting Nintendo licensees
11 to breach their contracts.

12 Some of them, absolutely clearly,
13 they didn't pay the limited money they were
14 supposed to pay as guaranteed royalties.
15 Judge Sweet found tortious interference
16 and made an award on that basis.

17 Judge Sweet, after finding the
18 tortious interference which was clearly
19 allowed, as set forth in our brief under
20 New York law, this business of prima facie
21 tort, which plays no part here.

22 We are talking about a well-founded
23 tort in New York law and in the commonlaw
24 of tortious interference with contract.

25 They interfered with the contracts.

1
2 He found a tort. So not yet a Rule 11 case;
3 tortious interference of contract and exemplary
4 damages, dependent on that, which Judge
5 Sweet said as a convenient measure he would
6 use the uncontradicted testimony as to what
7 Nintendo had had to pay as a result of the
8 scam to defend itself in this court.

9 He used that as a measure, but
10 he carefully sets out in his opinion that
11 he is following all the standards for awarding
12 punitive exemplary damages.

13 But what Judge Sweet did not do
14 is he did not go on to give Nintendo an
15 award for the almost \$5 million that Universal
16 succeeded in extracting from Nintendo's
17 licensing program.

18 JUDGE MESKILL: Why should he
19 have? That wasn't Nintendo's money.

20 MR. KIRBY: Your Honor, it wasn't
21 Nintendo's money.

22 JUDGE MESKILL: Is there anything
23 to prevent Coleco and the others from suing
24 Universal for having had that money extracted
25 from them unlawfully?

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3 MR. KIRBY: Coleco has sued
4 Universal. That case is pending before
5 Judge Sweet.

6 Coleco, indeed, was invited into
7 this litigation. I suggested to Judge Sweet
8 that perhaps the case should be consolidated.
9 Universal resisted that notion. But there
10 are separate rights, your Honor, separate
11 rights.

12 Coleco --

13 JUDGE MESKILL: These licensees
14 did make the payments they were obligated
15 to make to Nintendo under the licensing
16 agreements?

17 MR. KIRBY: Absolutely, your Honor.
18 They absolutely did make those payments.
19 And I am not contesting they made the payments,
20 and I am not contesting that it wasn't Nintendo's
21 money in the first place, the Coleco, Atari,
22 Ruby Spears money. But I do make these
23 points, your Honor.

24 First of all, with respect to unjust
25 enrichment, this Court has held, and it
is widely accepted in commonlaw, that the

1
2 question of whose money it was is not the
3 initial inquiry.

4 The question is: Did they get
5 a benefit? Was it unjust? Did they do
6 it by using someone else's rights?

7 That was recognized in Repro Systems,
8 when this Court reversed Judge Sweet.

9 JUDGE MESKILL: If there was something
10 that prevented these licensees from suing
11 Universal, that would be stronger.

12 How can we be sure that the others
13 won't get back the money --

14 MR. KIRBY: Your Honor, I think
15 that is a key, an important question, and
16 is one that I tried to deal with by getting
17 Coleco into the lawsuit below.

18 But, your Honor, since they didn't
19 come in, they chose to file a separate action,
20 since it wasn't consolidated, in part, because
21 Universal resisted it.

22 The issue we have to focus on are
23 two separate and independent issues. Let
24 me first look at the unjust enrichment.

25 Judge Sweet in his opinion indicated

1
2 substantial doubt that Coleco was an innocent
3 party. Coleco had other reasons for going
4 ahead and signing up a license agreement
5 with Universal.

6 So if your Honor were to affirm
7 here on the unjust enrichment point, it
8 is possible that Universal will end up laughing
9 all the way to the bank with this \$5 million.

10 Secondly, on unjust enrichment,
11 your Honor, I just briefly touch on the
12 preemption argument. I think I can see
13 how Judge Sweet could be led into error
14 on the legal point of whether there was
15 preemption.

16 The fact of the matter here is
17 that under the Copyright Act, there is limited
18 preemption of those things which are specified
19 in the Act.

20 In this case, Nintendo had given
21 the licensee the right to copy, reproduce,
22 had given them the right to distribute and
23 was being paid for that. Universal came
24 in and says: There is a separate fee, a
25 protection fee, another license fee you

1
2 have to pay to continue that. That is not
3 covered by the Copyright Act.

4 We could not have sued them or,
5 indeed, frankly, your Honor, we would have
6 for a Copyright Act violation. So there
7 was no preemption. So there was a right,
8 there is the money, there is no preemption.

9 Your Honor, I suggest that on the
10 unjust enrichment theory, there should be
11 an award of that money to the party who
12 came in with clean hands and says: You
13 have taken our right and you have done something
14 with it.

15 A, you have made money, but, B,
16 both as an unjust enrichment matter and
17 as a tortious interference matter, you have
18 hurt us because of what you have done.

19 Coleco, Ruby Spears and Atari put
20 the product into millions of homes. That
21 was the foundation of the licensing program,
22 taking it out of the video arcades and putting
23 it in cartoons and in video games in the
24 home. That would have been what made the
25 licensing program take off.

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3 JUDGE METZNER: Suppose you succeed
4 on the unjust enrichment? What happens
5 to the Coleco case before Judge Sweet?

6 MR. KIRBY: If Coleco were successful,
7 if this Court reversed and sent this back
8 to Judge Sweet, which is what we ask it
9 to, or reverse and said judgment should
10 be entered, then Coleco could not get a
11 double recovery if they were successful
12 in proving fraud.

13 In other words, Coleco could recover
14 from Universal and we would have recovered
15 from Universal already; a double recovery,
16 your Honor, which they ran the risk of because
17 I said, I said to them --

18 JUDGE MESKILL: That's quite a
19 difference. Can you succeed on an unjust
20 enrichment argument and get, in effect,
21 a double recovery?

22 MR. KIRBY: I misspoke myself,
23 your Honor. They would be hit twice.

24 Instead of going to the bank with
25 five million, they would lose that and have
to pay an additional five million.

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3 Yes, under an unjust enrichment
4 theory, we can get that on unjust enrichment
5 as long as they still unjustly enrich.

6 If Coleco had sued them and taken
7 the money away from them, then we couldn't,
8 of course, recover under unjust enrichment,
9 but we could have under tortious interference,
10 because when somebody creates a great scam
and inflicts damage, they run that risk.

11 JUDGE MESKILL: Didn't you already
12 get an award on tortious interference?

13 MR. KIRBY: Pardon me, your Honor?

14 JUDGE MESKILL: Didn't you already
15 get an award on tortious interference?

16 MR. KIRBY: We didn't, your Honor,
17 with respect to Coleco and Atari and Ruby
18 Spears because Judge Sweet found that even
19 though there had been the tortious interference,
20 he found that, A, Nintendo had waived it,
21 the right to seek that because they hadn't
22 sued them, hadn't sued its principal licensees,
23 and, of course, the New York law does not
24 say that you waive by not bringing a contract
25 action, you waive your tort action, and

1
2 finally he found that there hadn't been
3 a breach.

4 New York law does not require a
5 breach, it simply requires substantial imparity.
6 And I think that unquantifiable damage done
7 to the licensing program is manifest.

8 Your Honors, on the other points,
9 I think our brief has covered them.

10 Thank you very much, your Honors.

11 JUDGE MESKILL: Thank you.

12 Mr. Schwartz, you have reserved
13 five minutes.

14 MR. SCHWARTZ: Yes, I did, your
15 Honor. Thank you.

16 Let me say that on the question
17 of tortious interference here, the tort
18 of tortious interference requires that the
19 defendant have used wrongful means, and
20 it is precisely the fact that there is no
21 case cited by these people, and we think
22 there is no case in New York which holds
23 that filing a civil lawsuit is tortious
24 interference or is the wrongful means required
25 for that tort, which lies at the heart of

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our second contention, as I articulated
for your Honors before. The first one --

JUDGE MESKILL: (Inaudible)

MR. SCHWARTZ: But they did, your
Honor. Coleco settled.

JUDGE MESKILL: (Inaudible)

MR. SCHWARTZ: The dealings that
were had with those people, your Honor,
were much, much later and, indeed, were
Ralston Purina and one other that I cannot
remember.

Nintendo made a summary judgment
motion before Judge Sweet, and at that point
the whole effort to try to get settlements
with the licensees stopped. But let's not
lose sight of a very important factor here,
Judge Metzner.

Obviously the big ticket item,
so to speak, is Coleco. Coleco paid about
4.6 or 4.7 million dollars. All the rest
of these are changed.

Now, Coleco not only has brought
its own lawsuit against Universal, but the
record is very clear that at the time Universal

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2
3 was pressing Coleco to settle, Coleco made
4 an expressed request of Nintendo that Nintendo
5 indemnify it, that Nintendo take the problem.

6 Mr. Schwefel, a Coleco officer,
7 testified that he said to the people from
8 Nintendo: I am hanging out here without
9 a fig leaf. You know, give me some protection.

10 And they turned him down flat,
11 and now they claim that we are unjustly
12 enriched and may have to pay, in effect,
13 four and a half million dollars out twice.

14 There is absolutely no merit to
15 it. These were sophisticated, intelligent
16 people who made their own justments as to
17 what the cases were worth.

18 Coleco is suing, and that lawsuit
19 will come out as it comes out. We are not
20 trying to head off that lawsuit.

21 It does seem ridiculous, though,
22 to suggest that we could be unjustly enriched
23 if it turns out that we have to pay the
24 four and a half million dollars back to
5 Coleco.

Where is the enrichment? I mean,

1 there is an undercurrent here, if I may
2 say so, of disingenuous outrage, which is
3 ridiculous.
4

5 The whole situation was clearly
6 outlined for these people. They had sophisticated
7 counsel. They made their own investigation.
8 They determined to resist Universal's claims.
9 They were ultimately successful, and that's
10 good for them.

11 What we are protesting about is
12 this was not a tort, this was not tantamount
13 to criminal misconduct. It was nothing
14 of the sort. It was an ordinary civil
15 action. It never should have gone off the
16 way it did.

17 Now, I do submit that the simplest,
18 the most economical way of resolving the
19 dispute is the issue that you asked Mr.
20 Kirby about, Judge Meskill: Did Universal
21 have any rights?

22 The answer clearly, it seems to
23 me, is that it did. He still wasn't willing,
24 as he stood up here, to say that that thing
25 was a transfer in gross which transferred

1 no good will. It just wasn't.

2 Ultimately, as this Court ruled
3 before, it may be adjudicated adversely
4 to Universal, but there is no likelihood
5 of confusion. So be it.

6 But on the fundamental issue, which
7 I want to be very clear about, the fundamental
8 issue underlays the award of attorneys'
9 fees and the punitive damages and all the
10 rest of it, had nothing to do with the likelihood
11 of confusion. It had to do with the notion
12 that Universal knew it had no rights.

13 It was an issue of not being specific
14 enough, in other words, to Donkey Kong,
15 and we submit, your Honors, it did have
16 the rights and, therefore, could not possibly
17 have known that it didn't.

18 In any event, it did the right
19 thing when it decided to sue. It went to
20 the right lawyer. He knew all the facts.
21 He had handled the whole matter. He knew
22 much more than Mr. Hadl and much more than
23 Mr. Sheinberg and, by DiMuro's own testimony,
24 much more than DiMuro.
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And he says: You can bring this case, and he drafted a complaint, and all those drafts are in the record, and it was an ordinary lawsuit. It was an ordinary lawsuit that was lost, and that happens sometimes, and then all of a sudden there is this 1985 decision which treats it as some sort of a crime. It was not.

And we respectfully say, your Honors, that it was not only clearly erroneous to award these fees and these punitive damages and the rest of it, it was unjust, and we urge the Court to reverse the decision below on that basis.

Thank you.

JUDGE MESKILL: Thank you.

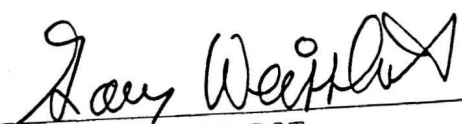
(Court adjourned)

C E R T I F I C A T E

STATE OF NEW YORK)
 : SS:
COUNTY OF NEW YORK)

I, GARY WEISSBROT, a Certified
Shorthand Reporter and Commissioner of Deeds
of the City of New York, do hereby certify
that the foregoing record of proceedings
is a full and correct transcript of the
stenographic notes taken by me therein.

IN WITNESS WHEREOF, I have hereunto
set my hand this 18th day of JUNE,
1986.



GARY WEISSBROT